

**DALE L. ST. CLAIRE, CPA**

Review Report

**QUALITY CONTROL REVIEW**

For the CPA's Audit of  
**DiGiorgio Elementary School District**  
*for the Fiscal Year Ended June 30, 2002*



**STEVE WESTLY**  
California State Controller

December 2003



**STEVE WESTLY**  
**California State Controller**

December 31, 2003

Dale L. St. Claire, CPA  
1900 Truxton Avenue, Suite B  
Bakersfield, CA 93301

Dear Mr. St. Claire:

The State Controller's Office has completed a quality control review of Dale L. St. Claire, CPA. We reviewed the audit working papers for your audit of DiGiorgio Elementary School District for the fiscal year ended June 30, 2002.

A draft report was issued on September 12, 2003. Your response to the draft report is included in this final report.

If you have any questions, please contact Casandra Moore-Hudnall, Chief, Financial Audits Bureau, at (916) 322-4846.

Sincerely,

A handwritten signature in dark ink that reads "Vincent P. Brown". The signature is fluid and cursive.

VINCENT P. BROWN  
Chief Operating Officer

VPB:jj/ams

cc: Robert E. Parsons, Superintendent  
DiGiorgio Elementary School District  
Larry E. Reider, Superintendent  
Kern County Office of Education  
Arlene Matsuura, Educational Consultant  
School Fiscal Services Division  
California Department of Education  
Charles Pillsbury  
School Apportionment Specialist  
Department of Finance

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## Attachment—CPA’s Response to Draft Report

# Review Report

## Summary

The State Controller's Office (SCO) has completed a quality control review of the audit working papers for the audit performed by Dale L. St. Claire, CPA, of the DiGiorgio Elementary School District for the fiscal year ended June 30, 2002 (FY 2001-02). The last day of fieldwork was June 19, 2003.

The audit referred to above was performed in accordance with some elements of the standards and requirements set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States, often referred to as generally accepted governmental auditing standards (GAGAS); generally accepted auditing standards (GAAS); Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (K-12 Audit Guide), published by the SCO. However, the majority of auditing standards and requirements were not met. The basis for this opinion is that the CPA did not comply with generally accepted auditing standards and governmental auditing standards with regard to general standards, fieldwork standards, and reporting standards. The CPA also did not comply with OMB A-133 requirements and K-12 Audit Guide requirements with respect to performing the audit with due professional care. Finally, the CPA did not comply with K-12 Audit Guide requirements with regard to the auditor's report on state compliance.

## Background

Any governmental unit subject to a single audit must have the audit performed in accordance with the standards referred to in this report. According to OMB Circular A-133, the auditor's work is subject to a quality control review at the discretion of an agency granted cognizant or oversight status by the federal funding agency. In addition, *Education Code* Section 14504.2 authorizes the SCO to perform quality control reviews of working papers for audits of K-12 local educational agencies to determine whether audits are performed in accordance with U.S. General Accounting Office standards for financial and compliance audits.

Dale St. Claire, CPA, is a certified public accountant with an office located in Bakersfield, California. The CPA performed the annual financial audit for three elementary school districts located in Kern County.

The DiGiorgio Elementary School District audit was selected by the SCO for the quality control review. The CPA has been the independent auditor for the district since FY 1987-88. During FY 2001-02, the district operated one elementary school and reported approximately 218 average daily attendance (ADA) for the purpose of state funding.

**Objectives,  
Scope, and  
Methodology**

The general objectives of the quality control review were to determine whether this audit was conducted in compliance with:

- GAGAS
- GAAS
- K-12 Audit Guide
- OMB Circular A-133

The quality control review was conducted at the office of Dale L. St. Claire, CPA, in Bakersfield, California. The SCO reviewers compared the audit work performed by the CPA, as documented in the working papers, with the standards stated in the general objectives.

**Conclusion**

The audit referred to above was performed in accordance with some elements of the standards and requirements set forth in GAGAS, GAAS, OMB Circular A-133, and the K-12 Audit Guide; however, the majority of auditing standards and requirements were not met. The basis for this opinion is discussed in the Findings and Recommendations section of this report.

This report is applicable solely to the audit working papers referred to above and is not intended to pertain to any other work of Dale L. St. Claire, CPA.

**Views of  
Responsible  
Official**

The SCO's findings and conclusions were provided to Dale L. St. Claire, CPA, in a draft report issued September 12, 2003. Mr. St. Claire's response was received October 16, 2003, and is included in its entirety as Attachment I to the final report. Mr. St. Claire disagrees with the findings and conclusions presented in the report.

The applicable sections of Mr. St. Claire's response have also been included under the CPA's Response at the end of each finding.

**Restricted Use**

This report is intended solely for the information and use of the specified parties; it is not intended to be and should not be used for any other purpose. This restriction is not meant to limit distribution of the report, which is a matter of public record.



JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

# Findings and Recommendations

## General

The Single Audit Act and the *Standards and Procedures for Audits of K-12 Local Educational Agencies* (K-12 Audit Guide), published by the SCO, require audits to be performed in accordance with generally accepted auditing standards (GAAS). These standards deal with the quality of the audits performed by the independent auditor and have been approved and adopted by the American Institute of Certified Public Accountants (AICPA). GAAS is divided into three areas: (1) general standards; (2) fieldwork standards; and (3) reporting standards. The three areas are divided into ten specific standards. In addition to GAAS, auditors of governmental entities must also perform audits in accordance with generally accepted government auditing standards (GAGAS), which expands the GAAS standards in several areas.

In the course of this quality control review, the SCO reviewers found that Dale L. St. Claire, CPA, did not comply with the majority of the GAAS and GAGAS standards.

In addition, the CPA did not adequately document the testing of the state compliance requirements of the K-12 Audit Guide and the single audit requirements for federal programs.

## Noncompliance with General Standards (GAAS)

## Noncompliance with Federal Single Audit Requirements

## Noncompliance with K-12 Audit Guide Requirements

### FINDING 1— Due Professional Care

A single audit was performed on the district even though the district did not meet the requirements for a single audit. The CPA stated that although a single audit was not required, it was easier to perform a single audit than to perform a standard audit and then have the federal agencies request all of the information disclosed in the single audit report. The SCO reviewers noted that in performing federal compliance testing for the National School Lunch program, the CPA did not utilize the applicable OMB Circular A-133 compliance supplement for the year being audited. The CPA tested programs for compliance with Civil Rights and Drug Free Workplace even though these requirements are not included in the Federal Compliance Supplement for the audit period.

In performing audit procedures for state compliance, the CPA did not utilize the applicable audit guide for the year being audited. The working papers contained outdated discussions regarding excused absences and lottery apportionment and, as discussed in Finding 2, the CPA did not perform all audit procedures as required by the K-12 Audit Guide for the following programs:

- Attendance Reporting
- Kindergarten Continuation
- Independent Study
- Incentives for Longer Instructional Day
- State Instructional Materials

## GAGAS 3.28 states:

Exercising due professional care means using sound judgment in establishing the scope, selecting the methodology, and choosing tests and procedures for the audit. The same sound judgment should be applied in conducting the tests and procedures and in evaluating and reporting the audit results.

## GAGAS 3.29 states:

Auditors should use sound professional judgment in determining the standards that apply to the work to be conducted. The auditors' determination that certain standards do not apply to the audit should be documented in the working papers. Situations may occur in which government auditors are not able to follow an applicable standard and are not able to withdraw from the audit. In those situations, the auditors should disclose in the scope section of their report, the fact that an applicable standard was not followed, the reasons therefor, and the known effect that not following the standard had on the results of the audit.

## AU Section 230.02 states:

This standard [due professional care] requires the independent auditor to plan and perform his or her work with due professional care. Due professional care imposes a responsibility upon each professional within an independent auditor's organization to observe the standards of fieldwork and reporting.

## OMB Circular A-133 Subpart E Section .500(d)(2) states:

The principal compliance requirements applicable to most Federal programs and the compliance requirements of the largest Federal programs are included in the compliance supplement. (3) For the compliance requirements related to the Federal programs contained in the compliance supplement, an audit of these compliance requirements will meet the requirements of this part. Where there have been changes to the compliance requirements and the changes are not reflected in the compliance supplement, the auditor shall determine the current compliance requirements and modify the audit procedures accordingly. For those Federal programs not covered in the compliance supplement, the auditor should use the types of compliance requirements contained in the compliance supplemental as guidance for identifying the types of compliance requirements to test, and determine the requirements governing the Federal program by reviewing the provisions of contracts and grant agreements and the laws and regulations referred to in such contracts and grant agreements.

Recommendation

The CPA should comply with the general standards and exercise due professional care in performing the audit. In addition, the CPA should utilize the OMB Circular A-133 Compliance Supplement and the K-12 Audit Guide applicable for the year under audit.

### CPA's Response

Your auditor state that I did not use due professional care in that I did not utilize OMB Circular A-133 Compliance Supplement and the K-12 Audit Guide applicable for the year under audit. I most certainly did utilize those publications. My most recent version of the OMB Circular A-133 was as current as I was aware existed. Your auditor was of the opinion that there was a later edition available which I will obtain and incorporate into my audit program. Since your auditors were concerned with State compliance issues, and OMB Circular A-133 applies to Federal issues only, I have to wonder why they carry on about it in their report. The K-12 Audit Guide is downloaded annually from your office and was totally current and to state otherwise is irresponsible on the part of your auditors.

### SCO's Comment

As noted in the finding, the standards require that due professional care be used in the conduct of an audit. This would include sound judgment being applied in planning and conducting the tests and procedures, and in evaluating and reporting the audit results. As the CPA judgmentally chose to perform a single audit on the district, due professional care should still be exercised in the conduct of the single audit. The CPA should have been aware of, and used, the OMB Circular A-133 Compliance Supplement applicable for the fiscal year under audit. In addition, the CPA's working papers indicated that the K-12 Audit Guide applicable for the fiscal year under audit was not used. The quality control review conducted by the SCO covers all aspects of the audit performed by the independent auditor for the local education agency, not just state compliance testing.

The OMB Circular A-133 Compliance Supplement is updated annually and is readily available for download on the GAO's website ([www.whitehouse.gov](http://www.whitehouse.gov)). The K-12 Audit Guide is also available on the State Controller's Office website at ([www.sco.ca.gov](http://www.sco.ca.gov)).

The finding remains unchanged.

## **Noncompliance with Fieldwork Standards (GAAS and GAGAS) Noncompliance with K-12 Audit Guide**

### **FINDING 2— Evidential Matter Deficiencies**

During the review of Dale St. Claire's working papers, the SCO reviewers noted the following deficiencies:

#### Attendance Reporting

- Testing was not performed on independent study as required in the K-12 Audit Guide because the district advised the CPA that it did not claim any independent study ADA. However, during testing of student attendance, it was noted that a student had received attendance credit for independent study. The claiming of independent study



ADA, regardless of whether it is short term or long term, by pupils while enrolled in a district's school, must comply with all statutory and regulatory conditions of apportionment. (*Education Code* (EC) Sections 46300, 51747 to 51748, Title 5, *California Code of Regulations* (CCR), Sections 11700 to 11703). The working papers contained no documentation that indicated additional procedures were performed to verify that, since the district reported short-term independent study for attendance credit, the district had complied with all independent study requirements. In addition, there was no documentation to explain why no procedures were performed to verify it was appropriate to pass on testing independent study.

- Student absences were not compared to documentation supporting ADA to verify that absences were not claimed for apportionment as directed by K-12 Audit Guide Procedure 3 for testing of reported attendance.
- Verification of teachers' credentials was not performed as required in Section 520 of the audit guide. Procedure 4, for testing of attendance reporting, directs the auditor to determine from a representative sample of teachers whether each of the teachers possessed a valid certification document during the year under audit. The CPA stated that this procedure was performed during payroll testing. However, the working papers for payroll testing contained no evidence that this procedure had been performed.

#### Kindergarten Continuation

Kindergarten continuation testing was not performed as required by Section 520 of the K-12 Audit Guide. As the district reported ADA for kindergarten, the CPA should have tested for compliance with kindergarten continuation requirements or the working papers should have provided an explanation as to why these procedures were not performed.

#### Incentives for Longer Instructional Day

In testing the district's compliance with requirements for receiving incentive funding for longer instructional days, Procedure 2 requires the auditor to review the school attendance calendar and bell (class) schedules and use the documents in determining the amount of instructional time offered. The CPA did not obtain or review the school calendar to determine compliance. The CPA incorrectly calculated instructional minutes by converting the minutes of a regular length day to tenths of an hour, then reconvert it to minutes and multiplying by 180 days (number of days taught in the school year). The CPA did not take into consideration minimum days when performing the instructional minutes calculation. Procedure 2 explicitly states, "The computation of total minutes offered for the year must exclude noninstructional time such as recess and lunch periods and minutes **not** offered on minimum days." According to the working papers the district had 43 minimum days during the school year.

Furthermore, for FY 2001-02, the district's calculations of actual instructional time offerings of 36,200 and 54,695 minutes, for kindergarten and grades four through eight, respectively, showed that it was not in compliance with the instructional minute requirements. Pursuant to EC Section 46201, districts must maintain their instructional minutes at the higher of either 1982-83 actual minutes or the 1986-87 requirements. According to the schedule of instructional time, the district's 1982-83 actual minutes were 36,500 for kindergarten and 55,000 for grades four through eight. Based on the information contained in the working papers, the district is not in compliance with the instructional time requirements and may be subject to a significant fiscal penalty.

### Instructional Materials

In reviewing the CPA's working papers for instructional materials, the SCO auditors noted that the CPA did not perform 5 of the 10 required audit procedures listed in the K-12 Audit Guide.

In order to be eligible to receive funds for instructional materials from any source (K-8 Instructional Materials Fund, 9-12 Instructional Materials Fund, or Schiff-Bustamante), EC Section 60119(1) and (2)(A) require that the governing board of a school district take certain actions. Procedures 1 through 4, which require the auditor to verify that those certain actions were carried out by the governing board of the school district, were not performed. As the actions were not verified as having been performed, the district may have been ineligible to receive instructional materials funding. Procedure 5 requires the auditor to determine the amount of ineligible funding if the district did not comply with the program requirements.

In addition, since the CPA did not perform procedures 1 through 4 with regard to the governing board's actions and public hearing, the district may not be eligible for the \$6,814 and \$9,336, respectively, in State Instructional Materials and Schiff-Bustamante funds.

Although the working papers for the State Instructional Materials Fund stated the requirement that the district hold a public hearing, there was no evidence in the working papers that the governing board held the public hearing, or that the CPA determined whether the board adopted the resolution or if the district complied with the public hearing requirements (i.e., 10-day notice, posting the notice in three public locations, etc.)

AU Section 326.16 states, in part:

Accounting data alone cannot be considered sufficient support for financial statements; on the other hand, without adequate attention to the propriety and accuracy of the underlying accounting data, an opinion on financial statements would not be warranted.

AU Section 339.01 states, in part:

The auditor should prepare and maintain audit documentation. . . . Audit documentation is the principal record of auditing procedures applied, evidence obtained, and conclusions reached by the auditor in the engagement. . . .

GAGAS Section 4.35 states:

Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.

GAGAS Section 5.15 states, in part:

In presenting the results of those tests [compliance with laws and regulations] the auditor should report fraud, illegal acts, or other material noncompliance.

Section 510 of the K-12 Audit Guide states, in part:

. . . All state requirements identified in Section 520 that are applicable to the entity must be tested for compliance with state laws and regulations. . . . Each compliance requirement is accompanied by suggested audit procedures that can be utilized as determined by the auditor's professional judgment.

### Recommendation

The CPA should ensure that the working papers provide sufficient documentation to support the auditors' conclusions and judgments. The CPA should follow all professional standards when performing audits of local educational agencies. All required procedures of the K-12 Audit Guide should be performed or the working papers should provide documentation as to the rationale for why procedures were not performed.

### CPA's Response

Your auditors state that testing was not performed on independent study as required in the K-12 Audit Guide. The District did not report any independent study and the testing of the attendance records did not indicate any independent study in excess of 10 pupils and ADA. My reading of the K-12 Audit Guide indicates that no further testing of the records was necessary. This was brought to the attention of your auditors but they seem to want more work anyway.

Your auditors are concerned that no testing of student absences to documentation supporting ADA to verify that absences were not claimed for apportionment was accomplished. However, a review of the program requirements of the attendance accounting program used by the Kern County Superintendent of Schools indicates that absences are not accumulated for apportionment accounting and the District uses the Kern County Superintendent of Schools' program. What more does you auditor want me to do?

Your auditors are concerned that teachers' credentials were not verified. However, a review of the Kern County Superintendent of Schools' payroll department indicates that such a verification is made by the Kern County Superintendent of Schools prior to payment of salary. My work papers indicated that this was the case and your auditor chose to ignore that. What more does your auditor want me to do?

Your auditors are concerned that no kindergarten continuation testing was performed. I noticed no evidence that students was being allowed to continue in kindergarten beyond one year; therefore no testing was done. The work papers were already two and ¾ inches thick so additional paper was not created.

Your auditors are concerned that in making the Incentives for Longer Instructional Day computations, the School Calendar was not used. I should point out that alternate means of days verification were available which were not considered by your auditors. The District personnel could not put their hands on the School Calendar at the exact moment the computations were being made so alternate sources of information were used. No discrepancies were noted so the audit moved on. I should point out that in the real world, time is of the essence. The District auditor does not have the backing of the entire taxpayer structure of the State of California nor the protection of civil service when doing his audit. Funding by the District is limited and does not include payment for wasted time. Minimum time was taken into consideration through the use of the alternate sources of information.

Your auditors are concerned with references to District Board actions regarding K-8 Instructional Materials. The District is not in the habit of making a specific reference in its minutes as to having reviewed the Instructional Materials list and accepting it or not, etc. However, that does not mean that the list was not reviewed, just that no reference was made to the review. In this instance, the Board did accept the District Superintendent's recommendation that the list be accepted and \$819 of the \$3,459 received was expended. The rest is still there. If you still have a problem, maybe you should send them a bill.

#### SCO's Comment

#### **Independent Study**

The CPA's working papers document that during attendance testing, it was discovered that the district did indeed report short-term independent study. With regards to materiality, The K-12 Audit guide states:

For purposes of these materiality calculations, full-time independent study ADA is the ADA reported on Line J of the J-18/19 and line E of the J-27/28 attendance forms; short-term independent study ADA is the ADA for short term independent study contracts administered by individual teachers and is not typically reported on line J of the J-18/19 or line E of the J-27/28.

The K-12 Audit Guide does not state that materiality guidelines require 10 pupils and ADA. The attendance-driven program materiality

guidelines refer only to ADA.

Pursuant to Title 5, CCR, Section 11703:

Records shall include, but not be limited to, a daily or hourly attendance credit register, as appropriate to the program in which the pupils or adult education students are enrolled, separate from classroom attendance records, and maintained on a current basis as time values of pupil or adult education student work products are personally judged by a certificated teacher and reviewed by the supervising teacher, if they are two different persons.

The claiming of independent study ADA, regardless of whether it is short term or long term, by pupils while enrolled in a district's school, must comply with all statutory and regulatory conditions of apportionment. (*Education Code* (EC) Sections 46300, 51747, to 51748, Title 5, *California Code of Regulations*, Sections 11700 to 11703).

The working papers did not include documentation that the independent auditor:

- Determined the amount of ADA claimed by the local education agency as short term independent study;
- Based on the determination of amount of ADA claimed by the local education agency, determined materiality based upon the materiality guidelines contained in the K-12 Audit Guide; or
- Verified the local education agency had complied with all Title 5, *California Code of Regulations* and *Education Code* requirements for independent study, since the district was indeed claiming short-term independent study ADA.

During additional verbal discussions, the CPA disclosed that no work was performed on independent study as the district did not claim any independent study ADA on Line J of the J-18/19 form. However, once short-term independent study attendance was discovered, the CPA performed no additional procedures.

### **Attendance**

A review of the program requirements of the attendance accounting program used by the Kern County Superintendent of Schools does not verify the accuracy of the attendance actually being recorded into the program or the district's adherence to absence verification requirements. Testing of student absences determines whether the district is in compliance with applicable rules and regulations regarding recordkeeping, as well as for truancy purposes. During verbal discussions held during the review, the CPA verified that he did not perform the procedure.

### Teacher Credentialing

The K-12 Audit Guide requires the auditor, using teachers selected from a previous step, to “. . . determine if each of the teachers possessed a valid certification document during the year under audit.” The working papers do not indicate that this procedure was performed or that any other alternative procedures were applied. In verbal discussions during the review, the CPA indicated that this procedure was done during payroll testing. However, the payroll section of the working papers did not indicate or document that this procedure had been performed, that the county office of education performs the procedure, or what steps the county performs to ensure all teachers retain a valid credential. If a teacher is not credentialed for any part of the school year, the instructional minutes offering requirements may not be met and the resulting fiscal impact could seriously affect the district.

### Kindergarten Continuation

As the district reported ADA for kindergarten, the CPA should have tested for compliance with the rules and regulations governing this area. Working papers should have provided an explanation as to why these procedures were not performed. The quantity of working papers is irrelevant to whether an audit has been or is being properly conducted in accordance with standards. Just because the working papers were already two and ¾ inches thick is not a valid reason as to why the work was not performed or properly documented. Based on the working papers, there is no assurance that the district is in compliance with the rules and regulations over kindergarten continuation.

### Incentives for Longer Instructional Day

Bell schedules were used to determine whether the district had complied with the longer instructional day requirements. However, these bell schedules did not indicate what the school holidays were, when the minimum days were, or the beginning and end of the school year. This information is used in determining the number of days the district operated. The bell schedules indicate that the district had *43 minimum days* (except for kindergarten) and that the school year was *181 days* long. However, when recalculating the minutes, the CPA used an incorrect formula. The K-12 Audit Guide explicitly states, “The computation of total minutes offered for the year must exclude non-instructional time such as recess and lunch periods and minutes **not** offered on minimum days.” In addition, the CPA used only 180 days rather than the 181 days the district was in operation. Based on recalculations performed by the reviewer, the district was not in compliance with longer instructional day requirements. This non-compliance results in a serious fiscal impact to the district and should have been reported as a finding. Also, any alternative procedures performed or documentation used that deviates from the requirements should be documented in the working papers.

The CPA has provided a new district calendar with his response. However, this particular calendar is used to determine the monthly attendance cutoff dates and does not indicate or document which of the student attendance days were minimum days, etc. The district faxed this calendar to the CPA on October 14, 2003, but it was not referred to or documented in the audit working papers that were reviewed.

### **Instructional Materials**

*Education Code* Section 60119(1) states:

The governing board shall hold a public hearing or hearings at which the governing board shall encourage participation by bargaining unit leaders, parents, teachers, and members of the community interested in the affairs of the school district and shall make a determination, through a resolution, as to whether each pupil in each school in the district has, or will have before the end of that fiscal year, enough textbooks and other instructional materials in each subject consistent with the content and cycles of the curriculum framework adopted by the state board.

*Education Code* Section 60119(b) states:

The governing board shall provide 10 days' notice of the public hearing or hearings set forth in subdivision (a). The notice shall contain the time, place, and purpose of the hearing and shall be posted in three public places in the school district.

The CPA's working papers for State Instructional Materials stated, "My review of the district disclosed that it did not have grades above eight." This statement does not address the five K-12 Audit Guide procedures and their specific requirements that are applicable for K-8 Instructional Materials or Schiff-Bustamante funding:

1. Determine whether the school district held the public hearing or hearings, to make a determination through resolution whether each pupil in each school has, or will have by the end of the fiscal year, enough textbooks or other instructional materials in each subject.
2. Determine whether the resolution states that there were sufficient textbooks or instructional materials. If the resolution does not state this, then verify that the governing board took action to ensure that each pupil will have sufficient textbooks or instructional materials, or both within a two-year period from the date of determination.
3. Determine whether the school district provided a 10-day notice of the public hearing or hearings described above as required by *Education Code* Section 60119(b).
4. Determine whether the notice included the time, place, and purpose of the hearing and was posted at a minimum of three public locations in the school district.
5. If the district was not in compliance with any of the above four requirements, the district is not eligible to receive IMF funding from any source for that fiscal year. . . .

The CPA has stated that the board is not in the habit of making a specific reference in their board minutes to having reviewed the instructional materials list and whether it is accepted or not. As noted above in procedure 1, the board is required (by the *Education Code*) to pass a resolution, which as noted in procedure 2, contains specific language. Procedure 2 also states that if the required language is missing, other actions are required. If the required language were missing, the CPA would also need to verify that the required alternative actions occurred. The board's action(s) are required to be documented somewhere or in some type of format, whether that be in board minutes and/or a copy of the resolution(s) available for public review. Based on the working papers, there is no assurance that the district is in compliance with the rules and regulations for Instructional Materials and Schiff-Bustamante funding.

The finding remains unchanged.

**FINDING 3—  
External Quality  
Control Review**

The peer review report was provided by Dale L. St. Claire. This finding has been removed.

**Noncompliance with K-12 Audit Guide Requirements**

**FINDING 4—  
Report Deficiencies**

The Auditor's Report on State Compliance lists all programs to be tested for state compliance requirements as well as the number of audit procedures for each program. The auditors are directed to provide an explanation, in the report, when a program is not tested, an audit procedure is not performed, or an alternate procedure is performed (EC Section 14503(a)). The CPA's report on state compliance incorrectly stated that the auditor performed all of the suggested audit procedures for Attendance Reporting, Incentives for Longer Instructional Day, and State Instructional Materials (K-8) and Schiff-Bustamante Standards-Based Instructional Materials. In addition, the report indicated that the audit procedures were not applicable for Kindergarten Continuation. As noted in Finding 2, the CPA did not perform all of the suggested audit procedures for Attendance Reporting, Independent Study, Incentives for Longer Instructional Day, and State Instructional Materials (K-8) and Schiff-Bustamante Standards-Based Instructional Materials and did not provide explanations as to why these procedures were not performed. Furthermore, the audit report did not contain an explanation as to why the kindergarten continuation procedures were not performed, even though, as noted in Finding 2, the district reported kindergarten ADA.

*Education Code* Section 14503(a) states:

Financial and compliance audits shall be performed in accordance with General Accounting Office standards for financial and compliance audits. The [K-12] Audit Guide prepared by the Controller shall be used in the performance of these audits. Every audit report shall specifically and separately address each of the state compliance program requirements included in the audit guide, stating whether or



not the district is in compliance with those requirements. For each state program compliance requirement included in the audit guide, every audit report shall further state the suggested audit procedures included in the audit guide for that requirement were followed in the making of the audit, if that is the case, or, if not, what other procedures were followed. If a school district is not in compliance with a requirement that is a condition of eligibility for the receipt of state funds, the audit report shall include a statement of the number of units of average daily attendance, if any, that were inappropriately reported for apportionment.

### Recommendation

The independent auditor should include in the auditor's report on state compliance the actual number of procedures performed for each program and, if not all procedures were performed, an explanation as to why any procedures were not performed and/or a description of any alternate procedures performed.

### CPA's Response

Your auditors are concerned with perceived report deficiencies. Maybe there is a communications problem here. I am under the belief that if there is no exception noted, no verbiage is required. This has been the standard for well in excess of the last fifty years. The audit report basically says "everything is fine except. . .", and an explanation of which procedures are or are not performed is part of the auditor's professional judgment and work papers only.

### SCO's Comment

As detailed in the finding, the state compliance reporting deficiencies are not just "perceived deficiencies." The CPA's beliefs are incorrect with regard to the standards for state compliance reporting. The *Education Code* is very specific and clearly details the reporting requirements. Also, the *K-12 Audit Guide* illustrative example follows the Education Code reporting requirements and reiterates the requirement for documenting procedural changes and/or associated explanations. These reporting requirements have been the same for numerous years. Based on the *Education Code* requirements, required explanations as to why procedures were not performed would not be considered a part of the auditor's professional judgement and working papers, as the CPA has stated.

*Education Code* Section 14503(a) states:

Financial and compliance audits shall be performed in accordance with General Accounting Office standards for financial and compliance audits. The [K-12] Audit Guide prepared by the Controller shall be used in the performance of these audits. Every audit report shall specifically and separately address each of the state program compliance requirements included in the audit guide, stating whether or not the district is in compliance with those requirements. **For each**

*state program compliance requirement included in the audit guide, every audit report shall further state that the suggested audit procedures included in the audit guide for that requirement were followed in the making of the audit, if that is the case, or, if not, what other procedures were followed.* If a school district is not in compliance with a requirement that is a condition of eligibility for the receipt of state funds, the audit report shall include a statement of the number of units of average daily attendance, if any, that were inappropriately reported for apportionment. [emphasis added]

The required changes to the auditor's report on state compliance were not made. Consequently, the finding remains unchanged.

**Attachment—  
CPA's Response to Draft Report**

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*Dale L. St. Claire*

CERTIFIED PUBLIC ACCOUNTANT

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Casandra Moore-Hudnall  
Chief, Financial Audits Bureau  
California State Controller's Office  
Division of Audits  
P O Box 942850  
Sacramento, California 95250-5874

Dear Ms Moore-Hudnall:

I am in receipt of the review report on the Quality Control Review of my firm as it applies to the DiGiorgio School District for the fiscal year ended June 30, 2002, and have read that report with some dissatisfaction.

The report states that I did not comply with generally accepted auditing standards and governmental auditing standards with regard to general standards, fieldwork standards and reporting standards. If your auditors really believe that, I suggest that they return to school because I certainly did comply with those referenced standards. I will also add that the problem that your auditors experienced was with compliance issues and were of a completely judgmental nature and centered mainly around additional documentation that your auditors felt was necessary. Your auditors are of the belief that there is never enough documentation.

Also, I have to wonder if your auditors really know the basic theory of auditing. An audit by its nature is designed to test the records to determine with reasonable certainty that the financial records present fairly the financial condition and position of the audited entity. The State of California has required the Districts to go beyond that point and have the auditor apply the same level of work to determine with reasonable certainty the District is complying with certain program requirements. This assumes that the District is innocent of inappropriate acts until something comes to the attention of the auditor to indicate to the contrary. This is not a fraud audit. That is what the District contracted with me to do and what I did. However, your auditors are raising the level of the audit to that of a fraud audit and want the District auditor to examine each and every piece of paper at the District (rather than test those records) and have a write-up on each page in the auditor's work papers. I might add that this District has an ADA of 218 and that the work papers were 2 and 3/4 inches thick as it was. For you auditors to say that the majority of the standards were not met is not true. I may not have met the requirements that they would like to have me meet, but I did meet the standards required by the rest of the world and do what I was contracted to do.



#### Finding 1 - Due Professional Care

Your auditor state that I did not use due professional care in that I did not utilize OMB Circular A-133 Compliance Supplement and the K-12 Audit Guide applicable for the year under audit. I most certainly did utilize those publications. My most recent version of the OMB Circular A-133 was as current as I was aware existed. Your auditor was of the opinion that there was a later edition available which I will obtain and incorporate into my audit program. Since your auditors were concerned with State compliance issues, and OMB Circular A-133 applies to Federal issues only, I have to wonder why they carry on about it in their report. The K-12 Audit Guide is downloaded annually from your office and was totally current and to state otherwise is irresponsible on the part of your auditors.

#### Finding 2 - Evidential Matter Deficiencies

Your auditors state that testing was not performed on independent study as required in the K-12 Audit Guide. The District did not report any independent study and the testing of the attendance records did not indicate any independent study in excess of 10 pupils and ADA. My reading of the K-12 Audit Guide indicates that no further testing of the records was necessary. This was brought to the attention of your auditors but they seem to want more work anyway.

Your auditors are concerned that no testing of student absences to documentation supporting ADA to verify that absences were not claimed for apportionment was accomplished. However, a review of the program requirements of the attendance accounting program used by the Kern County Superintendent of Schools indicates that absences are not accumulated for apportionment accounting and the District uses the Kern County Superintendent of Schools' program. What more does your auditor want me to do?

Your auditors are concerned that teachers' credentials were not verified. However, a review of the Kern County Superintendent of Schools' payroll department indicates that such a verification is made by the Kern County Superintendent of Schools prior to payment of salary. My work papers indicated that this was the case and your auditor chose to ignore that. What more does your auditor want me to do?

Your auditors are concerned that no kindergarten continuation testing was performed. I noticed no evidence that students was being allowed to continue in kindergarten beyond one year; therefore no testing was done. The work papers were already two and ¾ inches thick so additional paper was not created.

Your auditors are concerned that in making the Incentives for Longer Instructional Day computations, the School Calendar was not used. I should point out that alternate means of days verification were available which were not considered by your auditors. The District personnel could not put their hands on the School Calendar at the exact moment the computations were being made so alternate sources of information were used. No discrepancies were noted so the audit moved on. I should point out that in the real world, time is of the essence. The District auditor does not have the backing of the entire taxpayer structure of the State of California nor



the protection of civil service when doing his audit. Funding by the District is limited and does not include payment for wasted time. Minimum time was taken into consideration through the use of the alternate sources of information.

Your auditors are concerned with references to District Board actions regarding K-8 Instructional Materials. The District is not in the habit of making a specific reference in its minutes as to having reviewed the Instructional Materials list and accepting it or not, etc. However, that does not mean that the list was not reviewed, just that no reference was made to the review. In this instance, the Board did accept the District Superintendent's recommendation that the list be accepted and \$819 of the \$3,459 received was expended. The rest is still there. If you still have a problem, maybe you should send them a bill.

#### Finding 3 - External Quality Control Review

Your auditors asked to obtain a copy of my last peer review. As it happens, I could not put my hands on that report due to having moved and some files being moved around as well. I informed them that I would obtain a copy either by finding my file or calling the California Society of Certified Public Accountants. Said copy has been obtained; however, your auditors did not ask for it when they came for the exit review. I have sent a copy to your office under separate cover.

#### Finding 4 - Report Deficiencies

Your auditors are concerned with perceived report deficiencies. Maybe there is a communications problem here. I am under the belief that if there is no exception noted, no verbiage is required. This has been the standard for well in excess of the last fifty years. The audit report basically says "everything is fine except ...", and an explanation of which procedures are or are not performed is part of the auditor's professional judgment and work papers only.

Very truly yours,

  
Dale L. St. Claire

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